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Skeptical on Social Security, younger workers shift to personal retirement accounts

By Rob Burgess

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Older generations still view Social Security as a viable source of retirement income. But younger workers aren't confident it will be there for them when they finish their careers.

According to research firm Cerulli Associates' latest U.S. Retirement Edition study, more than half (56%) of retired 401(k) participants say Social Security is their primary source of income, while only 7% of current retirees rely on personal retirement accounts as their primary source of income.

Meanwhile, 58% of millennial active 401(k) participants expect personal retirement accounts to be their primary post-career income source, while only 6% say Social Security.

By contrast, 39% of Generation X active 401(k) participants say their primary source of retirement income will be personal retirement accounts, and 30% say it will be Social Security.

The data for the survey was collected in the first quarter of 2024 from around 1,500 401(k) investors, including 998 active, working, current 401(k) account owners and 511 retired current or former 401(k) account owners.

Advisors say they've seen similar generational disparities in their own practices.

Jon McCardle, president of Summit Financial Group of Indiana in Lafayette, Indiana, said over the past decade his firm has observed a notable shift in how clients approach retirement planning.

"While most aren't quoting detailed reports or calculating the likelihood of relying solely on Social Security, they are increasingly aware of the need to build a retirement strategy that minimizes dependence on it," he said. "Many now aim to accumulate enough savings to retire comfortably without leaning heavily on Social Security to maintain their lifestyle."

Stephan Shipe, founder and CEO of Scholar Financial Advising in Concord, North Carolina, said the uncertainty around Social Security is higher the further someone is away from receiving it, so to hedge against that uncertainty, investors should plan to rely less on Social Security.

"As time gets closer, the probability of receiving Social Security is higher and the amount more certain because the odds of Social Security being cut is lower the closer an investor is to receiving it," he said. "I always have clients plan to be able to fund fixed and base expenses with retirement accounts just in case Social Security is cut."

Lawrence D. Sprung, founder of Mitlin Financial in Hauppauge, New York, said he has seen the belief that Social Security will be available declining with the younger generations.

"They have also been inundated that their retirement is their responsibility, and the number of them that will have pensions in retirement is declining as well," he said. "I believe that this is a good sign that the message is getting out and they are taking their retirement more seriously."

Baby boomers see Social Security as a reliable retirement income source

Chris Boyd-Witherspoon, financial services professional at American Heritage Financial in Atlanta, said her baby boomer clients see Social Security as their main source of retirement income.

"It's what they've always counted on, and they often feel a bit anxious about how it'll hold up," she said. "I perform a retirement plan gap assessment to help them set realistic expectations and discuss the importance of diversifying their income. We talk about how personal savings and investments can create a more secure safety net alongside Social Security."

Tracy L. Sherwood, founder of Sherwood Financial Management in Clarence, New York, said the baby boomer generation was introduced to guaranteed income and many expected to receive pensions, health care and Social Security benefits to fund their retirement years.

"Throughout their careers, companies did away with pensions, companies did away with retiree healthcare coverage and there was greater talk about the viability of the Social Security fund and discussion of reduced Social Security benefits," she said.

Jim Davis, partner and senior wealth advisor at Aspen Wealth Management in Fort Worth, Texas, said many of his retired clients, particularly baby boomers, do rely heavily on Social Security.

"For some, it's been the cornerstone of their retirement income strategy, supplemented by pensions or personal retirement accounts," he said. "However

... current retirees relying primarily on personal retirement savings are in the minority."

Gen X and millennials have a different view

When it comes to Gen Xers like her, though, Boyd-Witherspoon said they have a more mixed view.

"We are concerned about relying on Social Security, especially after the economic shifts we've experienced," she said. "We tend to see personal retirement accounts as a significant part of their future income, which is a great mindset. To set expectations for them, I use personalized financial projections that help illustrate different retirement scenarios. This way, they can visualize how their savings can grow and how much they'll need to live comfortably in retirement."

With millennial clients, like her five adult children, Boyd-Witherspoon said the expectations shift even more.

"They are optimistic and anticipating that personal retirement accounts will be their primary income source," she said. "I love this enthusiasm and encourage them to automate their savings and invest wisely. Most feel if they get Social Security, it will be a bonus."

Over Gen Xers' careers, Sherwood said "Cadillac" health insurance plans stopped being offered, and many employees transitioned to more expensive high-deductible health care plans. Some also saw reductions in employer 401(k) plan matches.

"They have gradually spent more and taken greater fiscal responsibility for their future," she said.

Millennials may have a greater awareness that these benefits are always subject to change and that they need to do more personal saving to claim their own future, said Sherwood. For these clients there has been "regular, continuous talk about Social Security funds depleted, companies downsizing and greater job turnover."

Davis said when working with younger clients, especially millennials and Gen Xers, the conversation takes on a different tone. Many are skeptical about Social Security being a reliable source of income when they retire.

"While I don't dismiss Social Security outright — after all, it will still likely play a role — I emphasize the importance of personal retirement savings," he said. "I encourage clients to view their 401(k)s, IRAs and other retirement accounts as primary sources of income in retirement. This not only helps them prepare for any uncertainties surrounding Social Security but also gives them more control over their financial future."

Open conversations are key

When she talks to clients about their retirement income, Boyd-Witherspoon said she makes it a point to have open conversations.

"I ask them about their expectations and any fears they might have," she said. "It's all about making them feel comfortable and informed. By discussing various strategies and using real-life examples, I help set realistic expectations. In the end, whether they're baby boomers, Gen Xers or millennials, my goal is to guide them toward a well-rounded approach to retirement planning that works for their unique situation."

Jason Gilbert, founder and managing partner of RGA Investment Advisors in Great Neck, New York, said he stresses the importance of income replacement, rather than relying on arbitrary withdrawal rates.

"We create portfolios that emphasize high-quality dividend stocks and, of late, laddered perpetual bonds, particularly within money center banks, which allow for equity-like returns paired with attractive yields," he said. "Our approach seeks to replace adequate income while also generating a reasonable compounded rate of return, ensuring the portfolio continues to grow and sustain income needs over the long term. This dual focus on income and growth offers clients greater peace of mind, particularly in an evolving economic environment."